

**QUARTERLY TASK ORDER
PROGRESS AND
COST REPORT**

**OCTOBER TO DECEMBER
2001**

**KYRGYZSTAN LOCAL
GOVERNMENT INITIATIVE**

Prepared for



Kyrgyzstan Local Government Initiative
U.S. Agency for International Development
Contract No. EEU-I-00-99-00015-00, Task Order No. 805

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ATTACHMENT

Cost Report

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Task Order No.: EEU-I-00-99-00015-00, Task Order No. 805

Date of Issuance: October 1, 1999

Task Order Description

In October 1999, United States Agency for International Development (USAID) contracted the Urban Institute (UI) to implement what became a three-year local government project in Kyrgyzstan. UI is working to improve the efficiency, responsiveness and accountability of local government in Kyrgyzstan by providing training and technical assistance in financial and asset management and democracy and governance, contributing to the development of beneficial national policies affecting local governments and disseminating good practices, both domestic and international. UI has chosen Kant, Tokmok, Naryn and Uzgen as its pilot cities for activities with local impacts.

Amount Obligated Under Task Order:	\$4,515,661
Total Potential Task Order Amount:	\$4,515,661
Dollars Expended To-date:	\$2,729,915

As required by Section F.5 of the Local Government Contract, below is a description of progress during the last quarter under the following Task Order.

Work Performed During Previous Quarter

Highlights

- Adoption of progressive amendments to the Election Code to allow for direct elections of most local government heads. Elections held on December 16, UI helped with voter education and candidate debates.
- Parliament adopts local government law, a modest improvement over previous legislation.
- Regional seminars for all city officials on condominium-city relations and basics of real estate economics.



- Five community grant programs implemented.
- Public Budget Hearings held in three cities, with first-time hearings in big cities of Osh and Jalal-Abad.
- Study tour to Hungary for finance officers.
- Publication of *Grassroots Democracy in Brick and Concrete*, survey results regarding condominium development; well received by Kyrgyz officials.

Activities

Introduction of Democratic Practices, Citizen Participation—Kyrgyzstan held 460 local elections, including 11 cities, on December 16. Runoffs for 266 races were held on December 23. Incumbents won in at least 7 of the 11 cities. The exceptions were Kant, where the incumbent deputy mayor won; Naryn and Tokmok where the results are under review in court and the incumbents may still be declared winner; and Uzgen, where the incumbent had been assaulted and physically was unable to campaign. Overall turnover of local government heads was unofficially 44 percent; there was greater turnover in the villages, most likely due to the fact that, unlike in the cities, previously heads were simply appointed by the akim regardless if they lived in the village or not.

UI promoted the local elections through provision of editorial assistance and support for production of 71,500 information leaflets concerning the local government elections. The leaflets were produced by Polis, a Kyrgyz NGO, and distributed in cities and rayon centers across the country. They consisted of information on how to vote and the responsibilities of the 'heads of local self-government'. UI also worked with NDI and local NGOs to organize candidate debates in Karakol, Naryn, Kant, Batken, Tokmok, and Kok-Jangak. The Central Election Commission at the last minute blocked and then allowed the debates to occur, which undermined organization of the debates in Kara-Suu and Cholpon-Ata. The quality of debates varied, but a substantial number of citizens were able to hear candidates speak on how they would address concerns. Finally, UI provided information and background to the OSCE political observation team. UI informally edited a draft of OSCE's report for accuracy on the organization of local government as well as comments on the election. The report will be distributed among missions at OSCE HQ in Vienna.

The cities of Osh, Jalal-Abad, Balykchi, and Tash-Komyr held their first ever-public budget hearings on their FY 2002 budgets. In each of the cities UI conducted formal NGO/community training on the budget process, which included distribution of prepared budget-in-brief documents, in advance of the actual hearings. The training focused on educating community leaders to be able to ask the right questions on how expenditures affect quality of services in their city. At the same time, training on budgeting and on holding public hearings was provided to local finance offices and city councils. Council chairpersons led the hearings instead of mayors. Surprisingly, the city staff in Osh and Jalal-Abad, larger cities with presumably more capable staff, required more assistance and mentoring from UI to prepare budget-in-briefs and organize the hearings.



Officials from Bishkek and Isfana also requested help in organizing budget hearings. UI will help Bishkek to organize a hearing to solicit inputs for the Fiscal Year (FY) 2003 budget in the spring of 2002. UI is also planning to work with the NGO Foundation for Tolerance International to include the cities of Batken oblast in the Fergana Valley in training and assistance to conduct hearings while adhering to US Embassy travel restrictions.

Five community infrastructure grant projects were completed: rehabilitation of drainage system in Kara-Balta; repair of school roofs in Karakol and Naryn; construction of public toilets in Uzgen, and road repair Uzgen. Two Grant Agreements with Naryn were extended until April 30, 2001, as weather has made further construction impractical. UI conducted site visits to each of these locations to monitor implementation of the grants.

UI convinced the parliamentary committee on state structure to hold an open session to review the draft local government law, allowing NGOs to be present and make comments on the law.

Introduction of Democratic Practices, Transparent, fair municipal procedures established—At the request of the Bishkek city council, UI worked with the staff at the city's Municipal Property Department (UMS from its Russian acronym) to develop procedures for leasing or providing communal property for use. UI was eager to work in this area because of its importance as a model for other cities, its importance to the city economy, and the avenues for corruption that the previous norm-based system provided. After a month of work, UI made two presentations of the model procedures to UMS staff. Though the presentations were well received, UI learned from mid-level UMS staff that the mayor's office was planning to dilute provisions mandating competition and the role of the council. In part out of anticipation of these problems, UI has provided its documents also to the head of the Bishkek city council, who will hopefully serve as a counterbalance to the mayor's office promoting more transparent guidelines, if need arises. Later, UI learned that UMS plans to submit UI's procedures with some inconsequential editing. The procedures are to be presented to the council for approval most likely during the March session of city council, though there remains a chance that they will be reviewed during the January session.

With the completion of five projects, UI has made final payments on several grant agreements with contractors. Each of these contractors had been selected on a competitive, open basis. Both the city governments and the contractors were satisfied with the competitive procedures and the procurement itself.

Introduction of Democratic Practices: Role of elected local councils increased—Although the new local government law ended up having the mayor combine his/her position with council chairman for villages and rayon subordinate cities, it still contains points that enhance the role of local councils. Local councils are given the ability to force a mayor out of office by a two-thirds majority. Higher level oblast or rayon councils are explicitly forbidden from interfering with local councils' activities.

Councils have come to play the leading role in public budget hearings organized with UI's assistance. Chairpersons are regularly moderators at the budget hearings. The Bishkek property lease and use procedures strongly enhance the role of councils in mandating competition and taking policy decisions to provide property at reduced rates to certain types of organizations.

Increased Local Government Capacity: Financial Management—Municipal officials from six partner cities, the head of the Local Budget Department of the Ministry of Finance, and UI staff member Mirlan Aldayarov participated in a study tour from November 4 to 15 in Hungary on financial management and intergovernmental issues. Participating cities include Karakol, Naryn, Tokmok, Kara-Balta, Kara-Suu and Uzgen. The study tour focused on program budgeting, capital planning, intergovernmental relations, and information systems. The tour combined training sessions with site visits to both republican level institutions such as the Ministry of Finance and Parliament as well as municipal visits. Prior to embarking on the study tour, participants signed a statement of cooperation requiring them to submit a report on the study tour and to deliver a presentation on a pre-identified topic at a training session upon their return. Because of the local elections in December, UI was forced to postpone these sessions into 2002.

UI began work with the Naryn City Administration on the development of a strategic city plan. The plan will consist of three main components: a strategy document, sectoral plans, and an investment project inventory and prioritization. An oversight committee has been established and the main drafters of the plan identified. This work focuses previous efforts by the city government and local economic development board to work on development plans. Although there has been a small hiatus in active work because of the December elections and ensuing uncertainty over who was elected, local consultants carried out initial surveys of the business environment and consumer satisfaction with city services. UI is confident that the work will be carried through regardless of who is declared winner of the election.

UI provided training and technical assistance for finance departments in Osh, Jalal-Abad, and Tash Komyr for them to prepare budget-in-briefs in advance of their budget hearings. The cities utilized forms generated through the FIS to prepare the documents.

The Eurasia Foundation approved cooperation with the Urban Institute Bishkek to provide computer grants to city governments to cities that have not previously received support. The competition will have a prize pool of \$27,000 USD, out of which nine grants will be awarded for approximately \$3,000 each. Conditions of the grants will be working with UI, including use of the FIS, the communal property database, and holding public hearings. Internal issues within the Eurasia Foundation have unfortunately held up implementation of the program.

Increased Local Government Capacity, Condominiums—UI together with the Ministry of Local Self-Governance organized two major regional seminars on condominium development in October for representatives of southern cities and in November for representatives for northern cities. The seminars focused on ownership rights to multi-unit residential buildings, educating city officials on condominium operations and the benefits which they bring, and issues for cooperation between local government and condominiums. Recommendations were developed at the seminar, including proposals to modify the current condominium law in order to simplify the registration procedure. The seminars were attended by respectively 70 and 50 persons. Minister Omuraliev played a prominent role in chairing the seminar in Osh.

UI published *Grassroots Democracy in Brick and Concrete, Survey Results on the Development of Condominiums*, consisting of survey data and analysis about the state of housing and condominium development. 150 copies of the condominium survey report were distributed throughout Kyrgyzstan to city and oblast administrations and keneshes, regional condominium associations, members of the Jogorku



Kenesh, republican government officials, the Presidential administration, Association of Cities, and other NGOs, including Counterpart's Civil Society Support Centers. *Obschestvennyi Rating*, a major Bishkek weekly ran a two-page spread about the report. UI received substantial feedback from its partners as well as unexpected requests for more information and cooperation from MPs, the Anti-Monopoly Committee, and the Prime Minister's office.

In partnership with local condominium associations, UI facilitated the formation of 19 more condominiums totaling over 1,100 units, bringing the total at the end of the Year 2001 to 326 condominiums comprising 41,234 units. There is a critical mass of condominiums in most major cities in Kyrgyzstan. Over three fourths of the units are in condominiums in Jalal-Abad; roughly half of the units are in condominiums in Tokmok, Karakol, Tash-Komyr, Mailuu-Suu, Kara-Kul, Kok-Jangak, and Kant; roughly one third of the units are in condominiums in Osh and Naryn. There are a handful of condominiums in Uzgen, Kara-Suu, and Kyzyl-Kia in the south. Meaningful promotion work is only beginning in the small cities in distant Batken oblast and Talas. There remains much work to be done in Bishkek, where only a tiny proportion of housing is in condominiums, as well as the Urban Center of Kara-Balta.

The associations also delivered a combined 18 two-day training sessions for 60 condominiums on governance and management in their respective regions. Each training session is attended by the chairperson, manager (if there is one), two board members, accountant, and a member of the audit committee from each condominium as well as members of the NGO community and local government officials into the standard training courses.

UI Bishkek's promotional-educational film on condominiums was broadcast on the State TV channel on October 10. The 12 southern cities and 2 regional condominium associations received a copy of the film. The Ministry of Justice finally registered a joint regional condominium associations' newsletter after a long delay. The first issue was issued and disseminated in December.

Increased Local Government Capacity, Asset Management—UI held two regional seminars on “Real property economics and communal property management.” Approximately 85 people, including 4 mayors, 2 deputy mayors, and heads of departments from all other northern cities attended the seminar in the North. The turnout was boosted by a large turnout from private sector realtors and appraisers. Only 45 persons attended the southern seminar, though there was good attendance by city officials. The purpose of the seminar was to orient city officials towards how the real estate market operates in order to make them more sensitive to the private sector's interests when cities make decisions regarding land use and when it sells or rents communal property. UI subsequently learned that the mayor of Osh held a special staff meeting to review the materials and subsequently altered the city's practice of placing stringent conditions on future use of land parcels being sold by auction.

UI's asset management toolkit and database were finalized for distribution. The former awaits USAID approval in January and dissemination of the latter is contingent on the distribution of computers as per the grants program agreed upon with the Eurasia Foundation.

UI trained kenesh members and administration officials on “*Basics of Asset Management*” in Kara-Kul, Mailuu-Suu, and Balykchi.



As noted above UI also devoted substantial effort to the development of procedures for renting or providing use rights to municipal property for the Bishkek city property department.

Increased Local Government Capacity, Development of Effective Local Government Training—Training on preparations for public budget hearings was held in Osh, Jalal-Abad, and Tash-Komyr for kenesh deputies, city administration officials, NGO and community group representatives. Training on principles of local self-government was delivered in Osh, Jalal-Abad, Talas, Kara-Suu, Kara-Kul, Tash-Komyr, Mailuu-Suu, Kyzyl-Kia, and Kok-Jangak. This course has now been provided to all councils in all Kyrgyz cities except for those in Batken oblast, where there are restrictions on travel.

UI finalized a training capacity assessment of local partners. Based on the results, it was concluded that the Association of Cities is the most valuable potential training organization because of its unique knowledge in the area of local self-government and it is the only organization oriented towards training of local government officials. UI anticipates a broader capacity building agreement to be concluded with the Association in the near future. UI also held exploratory meetings on cooperation with the newly formed Institute for State and Municipal Management in the Academy of Management.

Increased Local Government Capacity, Information Sharing Increased/Association of Cities—UI concluded a six-month capacity building agreement with the Association in November. The General Assembly of the Association, which has been postponed until January due to local elections, will discuss the Association's Strategic Development Plan. The draft of the plan is being finalized with UI's assistance. The meeting will also be a chance for the Association to react organizationally to an initiative by Local Government Minister Omuraliev to fold it into a union of which he is president. The Association of Cities hired a local liaison and received space in Osh's mayor's office for its southern branch office.

The Association held two major events with Soros Foundation funding. The first was a seminar on October 20 to 22 on *"Harmonization of Legislation regarding Local Self Governments"*. Participants included deputies of the Jogorku Kenesh, local government official's members of the presidential and prime minister's apparatus, officials of the Ministry of Finance, and NGO representatives. Officials from the Presidential Administration took over the first day of the seminar to discuss the version developed in the conference committee of the draft law *"On Local Self-Government and Local State Administration."* Later the Association facilitated a round table discussion on communal property issues at the end of December.

Increased Local Government Authority: Intergovernmental Roles Clarified—The local government bill was adopted by parliament on December 28. The review of bill in plenary session was extremely hasty. It was extremely unclear what amendments, if any, the parliament was accepting or even proposing. The reason for the haste was in part to have a law to coincide with the assumption of office of the newly elected heads of local government and to pass the law before the winter recess.

Prior to the plenary session, UI continued to provide comments to try to persuade policy-makers and MPs to improve provisions in the draft local government bill, particularly with regard to clarifying functional assignments and ensuring independence of locally elected figures from political oversight by the national government. Some improvements were inserted into the draft prior to parliamentary review.



Further, UI was confident that MPs in the Committee meeting had taken out language that would allow the President to remove locally elected leaders under certain conditions.

However, the law that was signed by the President was basically the same as the one initiated by the President's administration. Further, UI is aware of the Local Government Minister spending significant time in parliament working on the law AFTER parliament had ostensibly passed it. Nonetheless, the end product is an improvement over the existing situation by codifying the current chaotic mix of legislation and making some headway towards identifying functions, but still does not provide a firm framework for effective local self-government unto itself. There is some cause for optimism however, that even officials in the President's Administration are viewing the law as an interim measure.

Increased Local Government Authority, Local governments have greater control over revenues—Amendments to the Tax Code were approved by the Jogorku Kenesh that will potentially impact local government revenues. Changes include: allowing local keneshes to increase the retail sales tax to 4 percent up from 3 percent; shifting the authority to determine the resort tax from the oblast to the rayon and from a minimum monthly wage basis to percentage (with a maximum); and shifting the hotel tax from a minimum monthly wage basis to percentage.

In addition, changes were made to the land tax increasing the tax on urban land and eliminating the tax on rural land, with an expected increase of revenue of 90 million sum in 2002. More importantly, the allocation of land tax was changed from 70 percent for local budgets, 10 percent to rayon budgets, and 20 percent for State Agriculture Fund to 90 percent for local budgets and 10 percent for the Republican budget. UI has been told that a provision was included in the law to enable cities and villages to retain the entire portion of the 90 percent for local budgets, rather than it being appropriated by rayons.

The communal property bill was finally sent to plenary session by the two committees charged with reviewing it. The Property Tax bill was under review by the government for all of the fourth quarter of 2001 prior to official submission to parliament.

Increased Local Government Authority: Local governments inform national policy dialogue—The Bishkek City Council chairperson, the Chu Oblast chairperson, and the Association of Cities played active roles in discussion of the local government bill.

Significant Findings, Delays, Events and Trends

Mr. William Kugler arrived in Kyrgyzstan in October as a replacement for Mr. Undeland as Resident Advisor. Mr. Kugler brings substantial expertise in finance and decentralization policy. Third Resident Advisor Hilary Smith departed on maternity leave in mid-December and will be returning in mid-March.

The passage of good election amendments and the holding of local elections are a major step forward for decentralization and the development of local democracy. The mere fact that leaders are now elected will make them more responsive and accountable to their populations. UI intends to work with the Association of Cities on training these newly elected officials. Moreover, UI will organize with AED funding a study tour for these leaders and council members to Poland in late winter.



The passage of the local government law, while representing an improvement over the previous situation does not establish an adequate framework for local governments to act independently. Several national partners understand that the law does not go far enough, but argue that it reflects the degree to which there is real (as opposed to declared) political will to decentralize at present. UI will continue to address the issue of clarifying functional assignments with all parties.

It appears likely that the national government will renew focus on functional assignments in connection with negotiations and receipt of a World Bank Government Structural Adjustment Credit (GSAC). The Credit, likely to be voted upon at the end of the Year 2002, will be linked to implementation of policy to clarify intergovernmental finance, address the functional assignments that should underlie the transfers system, and civil service reform. There will likely be a parallel grant for technical assistance provided by the British Government.

National policy makers focusing on local government will now be turning to working on intergovernmental finance issues. There continues to be the danger parallel work being done by Kyrgyz officials on regulating local government finances. The Ministry of Finance and the Parliament's Budget and Tax committees have been addressing issues relating to the structuring of the budget calendar, interaction between national and local budgeting, and revenue assignments for local governments yet Minister Omuraliev and to some extent the Presidential Administration plan to draft a separate law for local self-governments' financing. UI will seek to work with all parties to develop a coherent approach that will benefit local governments.

Work Planned for the Next Reporting Period

- Work with MPs on concerns/passage of the communal property law
- Seminars in the north and south for all city governments on financial management, including the results of study tour to Hungary
- Study tour for newly elected mayors to Poland
- Intensive work with the Association of Cities to develop its training capacity, its governance system as an NGO, and its capacity to service its members, especially in the south
- Development of city development strategy plan in Naryn
- Presentation to Bishkek city council of procedures to lease or provide for use communal property
- Dissemination of Asset Management Toolkit
- Preparation for budget hearings in several cities on the planned 2003 budget, including Bishkek for the first time



- Announcement of the third round of community infrastructure grants
- On-going collaboration with Barents on development of a property tax, developing a concept for local government finance, working on the Budget Code being developed in parliaments
- On-going collaboration with Chemonics on urban land issues

Specific Action Requested

No specific actions are requested this quarter

Up-To-Date Schedule of Work

Work is continuing in accordance with the approved workplan. The one area where there may be a delay is in the completion of agreements under the community grants program to be announced in January.

Key Personnel

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